

Service Date: June 8, 1984

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

IN THE MATTER Of The Application     )  
Of PACIFIC POWER AND LIGHT COMPANY ) UTILITY DIVISION  
For Authority To Increase Rates     ) DOCKET NO. 83.8.60  
And Charges For Water Service To    ) ORDER NO. 5065  
Its Consumers In Its Bigfork,        )  
Montana Service Area.                )

APPEARANCES

FOR THE APPLICANT:

John Dudis, Attorney at Law, Murphy, Robinson, Heckathorn and  
Phillips, One Main Building, Kalispell, Montana 59901.

Nancy Ganong, Attorney at Law, Stoel, Rives, Boley, Fraser and  
Wyse, 900 S.W. Fifth Avenue, Portland, Oregon 97204.

FOR THE INTERVENOR: :w James C. Paine, Montana Consumer Counsel,  
34 West Sixth Avenue, Helena, Montana 59620.

FOR THE COMMISSION:

Calvin Simshaw, Staff Attorney, 2701 Prospect Avenue, Helena,  
Montana 59620.

BEFORE:

Howard Ellis, Commissioner and Hearing Examiner.

BACKGROUND

1. On August 26, 1983, Pacific Power and Light Company  
(Applicant or PP&L) filed an application with this Commission  
for authority to increase rates and charges for water service  
at Bigfork, Montana. The Applicant requested an average increase  
of approximately 12.4%, which constitutes an annual revenue  
increase of approximately \$15,091.

2. Concurrent with its filing for a permanent increase in rates,  
PP&L filed an application for an interim increase in rates of

approximately 3.9% equalling a revenue increase of approximately \$4,696.

3. The Commission, because of an administrative oversight by its staff, never took action on the Applicant's request for interim rate relief and at the close of the public hearing in this Docket, the Applicant withdrew its request for interim rate relief.

4. On February 8, 1984, pursuant to Notice of Public Hearing, a hearing convened in the Community Room, Flathead Bank of Bigfork, Bigfork, Montana. The purpose of the hearing was to consider the merits of the Applicant's proposed water rate adjustment. At the close of the public hearing, all parties waived their right to a proposed order and stipulated to authorize the Commission to issue a final order in this Docket. Section 2-4-622, MCA.

#### ANALYSIS AND FINDINGS OF FACT

5. The Applicant presented the testimony and exhibits of the following witnesses:

Wayne Goin, Vice President and Division Manager Robert L. Svendsen, Senior Water System Engineer Donald C. Lamb, Cost of Capital Supervisor Robyn A. Warsinske, Rate of Return Analyst Lyle W. Kammerer, Rate Analyst

6. No public testimony was presented at the public hearing.

7. The test year ending December 31, 1982, as proposed by the Applicant, was uncontested and is found by the Commission to be a reasonable period within which to measure Applicant's utility revenues, expenses and returns for the purpose of determining a fair and reasonable level of rates for water service.

8. The Bigfork water utility is one of a number of regulated utilities within the corporate structure of PP&L under this Commission's jurisdiction. Therefore, certain issues impacting ratemaking for the water utility have been addressed in prior proceedings before the Commission. Issues such as, but not limited to, capital structure, cost of debt, cost of equity and composite cost of total capital are elements common to all of the regulated utilities within the corporate structure of PP&L, under this Commission's jurisdiction. On February 8, 1984, this Commission issued Order No. 5009a for PP&L's Montana electric service. This order had the effect of resolving certain ratemaking issues which are common to PP&L's utility operations in Montana.

9. PP&L at the start of the public hearing in Bigfork, revised its requested revenue increase. The revised revenue increase results from PP&L's incorporation of findings, on common issues, from this Commission's Order No. 5009a which impact the water utility. After recognizing the impact of the findings from the electric order, the Company's requested annual revenue increase drops from \$15,091 as filed to \$4,021 as revised (Late filed Ex. 1B, p.1 of 31).

#### RATE BASE

10. The Applicant proposed an average original cost depreciated rate base of \$344,683. The rate base as originally proposed by the Applicant increased to \$346,616 when the revisions from this Commission's Order No. 5009a, impacting the water utility, are incorporated. The Commission finds the Applicant's revised rate base is appropriate for use in this proceeding.

#### CAPITAL STRUCTURE AND ASSOCIATED COSTS

11. The Applicant, in its application, proposed the following

capital structure and associated costs:

<u>Description</u>	<u>Capital Structure</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-Term Debt	52.0%	10.19%	5.30%
Preferred Stock	12.0	10.99	1.32
Common Equity	<u>36.0</u>	<u>17.10</u>	<u>6.16</u>
Weighted Total	100.0%		12.78%

12. As stated previously, the Commission issued an order for PP&L's Montana electric operations on February 8, 1984. With regard to capital structure and associated costs, that order specified the use of the Applicant's actual capital structure, cost of long-term debt and preferred stock cost as of August 31, 1983 (excluding the impact of the debt/equity exchanges and the Company's investment in subsidiaries). The order further provided that the Applicant be allowed a 13.75% return on common equity.

The Applicant, at the public hearing, proposed adoption of the 13.75% common equity return and the methodology employed by the Commission in the electric order for purposes of determining capital structure and cost rates on long-term debt and preferred stock. The Applicant also proposed that it be allowed to update the Company's long-term debt and preferred stock costs and actual capital structure to the November 30, 1983 level.

13. The fact that the Bigfork water utility is one of a number of regulated utilities within the corporate structure of PP&L means that common issues, such as capital structure and associated costs, which have been addressed in prior Commission proceedings should be given similar treatment for ratemaking purposes. Therefore, the Commission finds that use of the actual capital structure and associated costs and the 13.75% return on common equity as specified in Order No. 5009a is acceptable.

14. Relative to allowing the Applicant to update capital

structure and costs to November 30, 1983, the Commission has consistently viewed updating as a positive way of more accurately portraying known and measurable capital costs and, therefore, accepts the use of actual data as of that date.

15. The Commission finds the following capital structure and cost of capital to be appropriate:

Capital <u>Description</u>	Weighted <u>Structure</u>	<u>Cost</u>	<u>Cost</u>
Long-Term Debt	58.0%	9.76%	5.66%
Preferred Stock	13.0	10.00	1.30
Common Equity	<u>29.0</u>	13.75	<u>3.99</u>
Weighted Total	100.0%		10.95%

#### OPERATING REVENUE

16. The test period operating revenues are not a contested issue in this case. The Applicant utilized a 12-month period ending December 31, 1982, to determine test year revenues under the rates which became effective June 3, 1983. Total test year revenues of \$121,380, as calculated by the Applicant, are accepted by the Commission.

#### OPERATING EXPENSES

17. The Applicant proposed the following revised proforma expenses reflecting adjustments from Order No. 5009a, impacting the water utility, and a 10.95% overall rate of return.

Operation and Maintenance Expense	\$61,094
Depreciation	9,769
Taxes Other Than Federal Income	10,130
Federal Income Tax	5
Deferred Income Taxes	6,504

Income Taxes Deferred in Prior Years	(70)
Investment Tax Credit Adjustments	<u>15</u>
Total Operating Revenue Deductions	\$87,447

The Commission finds total operating revenue deductions of \$87,447, as presented by the Applicant, to be the proper amount.

18. Operating Income is found to be:

Operating Revenue	\$121,380
Operating Deductions	<u>87,447</u>
Operating Income	\$ 33,933

19. Rate Base	\$346,616
Rate of Return	10.95%

Return Requirement	\$37,954
Adjusted Balance Available for Return	\$33,933
Revenue Deficiency	\$ 4,021

In order to produce a return of 10.95% on the Applicant's average original cost depreciated rate base, the Applicant will require additional annual revenues in the amount of \$4,021 from its Bigfork, Montana water utility.

#### RATE DESIGN:

20. The Applicant proposes in this Docket to spread its requested revenue increase among all customer classes on a uniform percentage basis (Late-Filed Exhibit 2B-1a). This procedure was not contested and given the minimal revenue impact on customer classifications will be accepted for use in this proceeding.

21. The Applicant, in an effort to develop a cost based minimum monthly charge for the Residential and Commercial-Industrial customer classes, presented an exhibit (Late-Filed Exhibit 2B-6) separating costs attributable to those customer classes, between customer-related and noncustomer-related components. The customer

related component of this exhibit can be defined as those expenses which would be incurred irrespective of the amount of water used and are directly assignable customer expenses, such as, Customer Accounting, Meter Maintenance, Capital Cost of Meters, etc. The noncustomer-related component of the exhibit is all other expenses of providing water service that are not directly assignable customer expense.

22. After determining total customer-related and noncustomer-related costs, the Applicant divided these costs by known statistical information (total billed water consumption and number of customers) to develop unit costs. The unit costs were then used to develop minimum monthly charges for the Residential and Commercial-Industrial customer classes by meter size.

23. The Applicant has adopted a simplistic approach for development of minimum monthly charges and, by doing so, may be placing too great or too little of the revenue burden on minimum use consumers. Absent a fully developed cost-of-service study, which would consider the many variables impacting proper setting or rates, the Commission cannot make a definite finding on the appropriateness of the Applicant's proposed minimum monthly charges, therefore, it will be necessary for the Commission to make subjective findings on the Applicant's proposal in following sections.

#### RESIDENTIAL RATES

24. For Rate Schedule 73, Residential Water Service, the Applicant's proposed rate structure includes a minimum charge with 3,000 gallons minimum consumption and a two-block declining commodity charge. Late-Filed Exhibit 2B-2a contains the revised rates proposed by the Applicant which are designed to generate annual revenues of \$60,926 from the residential customer class.

25. In Order No. 4945a, the Commission stated "that in the next general rate increase proceeding before this Commission, the Applicant should present sufficient information to support any proposed rate structure". The main concern of the Commission and the reason it placed the preceding requirement in that order was the existence of a 5,000 gallon minimum consumption allowance in the residential rate structure.

The Applicant, in its proposed rate structure, has reduced the minimum consumption allowance from its present level of 5,000 gallons monthly to 3,000 gallons monthly.--- This reduction in the minimum allowance was proposed by the Applicant in an effort to better reflect the use of low volume consumers, i.e. an effort to recognize the fact that a substantial portion of the consumers connected to the water system do not consume 5,000 gallons in a one month period.

26. Billing information submitted by the Applicant, indicates that approximately 46.7% of the total bills issued to consumers connected to the Bigfork water system are for consumption of 3,000 gallons or less. This would indicate that the present 5,000 gallon minimum consumption allowance is excessive because 46.7% of the consumer billings are paying for water which they are not receiving. The Applicant's proposal to reduce the minimum consumption allowance from 5,000 gallons monthly to 3,000 gallons monthly is reasonable and more reflective of the actual minimum consumption experienced on the system and is, therefore, accepted by the Commission.

27. The Applicant's revised Rate Schedule 73 (Exhibit 2B-2a) reflects a decreased minimum monthly charge for consumers using 3,000 gallons or less per month and was developed using data from the exhibit entitled "Development of Minimum Monthly Charge Components" (Late-Filed Exhibit 2B-6). The Commission in Finding



of Fact No. 23 stated that it would make subjective findings relative to the Applicant's proposed minimum monthly charges absent a fully developed cost-of-service study.

The Commission is concerned, absent a fully developed cost-of-service study, that allowing a reduction in the minimum monthly charge as proposed by the Applicant may give the consumer a false pricing signal and possibly result in severe customer impact when a fully developed cost-of-service study is presented. The Commission is of the opinion that the more moderate policy of leaving the minimum monthly charges at their present level, with the modified consumption allowance, and adjusting the minimum monthly charge when it has substantial data supporting such charge is appropriate.

28. The minimum monthly charge, as revised by the Commission, will generate total annual revenues in the amount of \$51,574 developed using data from Late-Filed Exhibit 3B). The remaining revenue requirement for the residential customer class equals \$9,352 ( $\$60,926 \div \$51,574 = \$9,352$ ) and it is proposed that it be recovered through a commodity charge.

29. The Applicant has proposed that a two-block declining commodity charge be implemented to recover the remaining revenue requirement of the residential customer-class. The Applicant's witness, Lyle Kammerer stated during his testimony that no cost justification existed that supported the implementation of a declining block rate schedule for the residential customer class. The Commission concurs with the witness's statement and therefore, rejects implementation of a declining block rate schedule.

30. At the present time, the Applicant has in effect a flat commodity charge per thousand gallons for all consumption

in excess of that allowed in the minimum charge. The Commission proposes to perpetuate this rate structure in an effort to enable continued residential irrigation and to minimize customer impact resulting from increased rates. The Commission finds that the Applicant should implement a commodity charge of \$1.18 per thousand gallons for consumption in excess of 3,000 gallons monthly. The commodity charge was determined by dividing the revenue to be generated from the commodity charge (\$9,352) by the consumption in excess of 3,000 gallons (7,941 M gals.) monthly.

#### COMMERCIAL RATES

31. For Rate Schedule 76, Commercial and Industrial Water Service, the Applicant's proposed rate structure includes a minimum charge with a minimum consumption allowance based upon meter size and a three block declining commodity charge. Late-Filed Exhibit 2B-3a contains the revised rates proposed by the Applicant which are designed to generate annual revenues of \$60,476 from the commercial-industrial customer class.

32. The Applicant's revised Rate Schedule 76 (Exhibit 2B-3a) reflects both decreased and increased minimum monthly charges for consumers using less than the minimum monthly consumption allowance. The minimum monthly charges were developed using data from Late-Filed Exhibit 2B-6 which, as previously stated, requires the Commission to make subjective findings relative to the proposed minimum monthly charges. Therefore, the Commission finds it appropriate to make adjustments to the Applicant's proposed minimum monthly charges.

33. The Applicant's proposed minimum monthly charge for consumers having a 3/4" meter represents a decrease and for consumers with a 1" meter it represents an increase. Consumers with a 3/4" or 1"

meter are more likely to be assessed a minimum charge, because of depressed consumption, than a consumer having a larger meter, therefore, for the reasons stated in Finding of Fact No. 27 the Commission finds the Applicant should maintain its current pricing policy and set those minimum at the level approved for the comparable meter size on the residential rate schedule.

Minimum charges for all other meter sizes on Rate Schedule 66 are increased and the Commission finds this to be acceptable. It has been the Commission's experience, generally, that consumers having meters exceeding 1" in size normally exceed the minimum consumption allowances established. Therefore, minimal customer impact could be expected from increased minimum charges on larger meter sizes.

34. The preceding adjustments, to the Applicant's minimum monthly charges, have the net effect of increasing the amount of revenue generated by the minimum monthly charge. The minimum monthly charge, as revised by the Commission, will generate additional annual revenues amounting to approximately \$454 (329 minimum bills issued for 3/4" meter and 73 minimum bills issued for 1" meters), therefore, it will be necessary for the Commission to decrease the Applicant's proposed commodity charges to compensate for the additional revenue generation under the minimum charges.

35. If the Commission decreases the commodity charge in block 1, this will cause a higher minimum monthly consumption allowance, because the minimum monthly consumption allowance is determined by dividing the approved minimum monthly charge by the rate in block 1 and this would operate to decrease consumption in block 1 and possibly cause decreased revenue generation. Therefore, the Commission has determined that the decreased revenue required from the commodity charge should be attained by decreasing the commodity charge in blocks 2 and 3. The Commission is of the

opinion that the most reasonable method of attaining the decreased revenue requirement is through implementation of a uniform cost per thousand gallon decrease in blocks 2 and 3. The Commission finds that the Applicant should decrease the commodity charge in blocks 2 and 3 by \$.03 per thousand gallons ( $\$454 \div 14,022 \text{ M gals. in blocks 2 and 3} = \$.0323$ ).

36. All other rate design proposals not discussed herein are approved, as reflected in Late-Filed Exhibit 2B.

#### CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the parties and subject matter in this proceeding. Section 69-3-102, MCA.

2. The Commission afforded all interested parties in this proceeding proper notice and an opportunity to participate. Section 69-3-303, MCA.

3. The rates approved herein are reasonable, just and proper. Section 69-3-201, MCA.

#### ORDER

THEREFORE, THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Pacific Power and Light Company shall file tariffs, consistent with the Findings of Fact herein, which reflect an increase in annual revenues of \$4,021 for its Bigfork, Montana service area.

2. The rates approved herein shall be effective for water service rendered on and after June 4, 1984.

3. A full, true and correct copy of this Order shall be sent forthwith by first-class United States mail to the Applicant and all other appearances herein.

DONE IN OPEN SESSION at Helena, Montana, this 4th day of June, 1984 by a 4 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

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Howard L. Ellis, Hearing Examiner

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Danny Oberg, Commissioner

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John B. Driscoll, Commissioner

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Clyde Jarvis, Commissioner

ATTEST:

Madeline L. Cottrill  
Commission Secretary  
(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.